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CENTRAL INTELLIGENCE AGENCY

19 September 1957

MEMORANDUM FOR: Mr. Allan Evans, State (OIR)
Colonel E. T. Seaburn, USA (ACSI)
Captain W. S. Howell, USN (ONI)
Colonel W. B. Sawyer, USAF (AFCIN 2B2)
Colonel J. M. Pittman, USA (JIG)

SUBJECT: TERMS OF REFERENCE NIE 51-57: CONSEQUENCES OF ECONOMIC
CRISIS IN INDIA

1. The attached terms of reference were agreed on at the meeting of the IAC representatives on 18 September.
2. All agencies are invited to contribute to any section within their competence to do so.
3. It is requested that contributions be received in this office by the close of business on 7 October. IAC target date is 29 October.

William P. Bundy
WILLIAM P. BUNDY
Deputy Assistant Director
National Estimates JS

Distribution "B"

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C E N T R A L I N T E L L I G E N C E A G E N C Y

18 September 1957

SUBJECT: TERMS OF REFERENCE: NIE 51-57: CONSEQUENCES OF ECONOMIC
CRISIS IN INDIA

THE PROBLEM

To estimate the political and economic effects of the growing economic crisis in India and to examine the longer term political consequences in India and Asia.

SCOPE NOTE

The estimate will deal primarily with the probable nature and consequences of India's efforts to tailor its development program to available resources. Attention will be concentrated on the period through the next Indian elections in 1962, but may extend over a longer term. Developments affecting US interests in India or Asia will be of special interest.

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QUESTIONS BEARING ON THE PROBLEM

I. CURRENT ECONOMIC SITUATION

- A. What is the nature of India's economic difficulties and what are their major causes?

(Note: Where these factors have been adequately treated in recent reports, appropriate citations and updating comment may be made in lieu of extended discussion.)

- B. To what extent are recent measures undertaken by the Indian Government likely to meet these difficulties? What is the scope for future self-help by the Indians?
- C. To what extent can the difficulties be attributed to a shortage of foreign exchange, to deficiencies in internal financing and inefficient administration, to resistance or indifference to the development program, to other circumstances which are largely independent of foreign assistance?
- D. How are Indian defense expenditures affecting the economic situation? What are the prospects for the future in this regard?
- E. How dependent is the development program on additional foreign aid and what are India's prospects for obtaining such aid from Western governments apart from the US, the IBRD, Western private capital, the Communist Bloc?

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II. FUTURE DEVELOPMENTS

- A. What choices does India face in regard to the Second Five Year Plan? How soon will a choice have to be made? What would be the consequences of the governments's insisting on attempting to fulfill the bulk of the Plan as it stands? Of openly prolonging the period of the Plan or abandoning major parts of it? Of compromising on an ad hoc basis without a definite decision either to curtail or push ahead with the existing Plan? Under what circumstances is a major economic crisis most likely to develop and what shape would it take? What would be the effect of a crop failure?
- B. Which choice is India most likely to make? Which leaders and which circumstances will be determining factors in the decision? How far are Indian leaders likely to be prepared to go (1) in imposing internal controls and (2) to obtain substantial additional foreign aid? Specifically, to what extent and under which circumstances are they likely to be prepared to compromise established principles of socialism at home and aggressive neutrality in the international field in order to obtain additional foreign aid and investment?

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C. What would be the political consequences in India of failure of the existing Plan? How would the position of Nehru, the Congress Party, the Communist Party or other political groups be affected? What would be the implications for the 1962 elections? What would be the role of the military in the event of political disintegration or a significant increase in Communist power?

III. LONG-TERM CONSEQUENCES OF FAILURE OR SUCCESS OF THE PLAN

A. What would be the long-term consequences of (1) success and (2) failure of the Plan (a) in India and (b) elsewhere in Asia -- especially in regard to India's position vis-a-vis Communist China?